

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 2/3/2015	(3) CONTACT/PHONE Kerry Bailey, 788-2979	
(4) SUBJECT Submittal of the County of San Luis Obispo's audited Comprehensive Annual Financial Report (Clerk's Filed), Single Audit Report (Clerk's Filed), Agreed-Upon Procedures Report for the Los Osos Landfill Financial Means Test Certification, and required communications letter for the Fiscal Year Ended June 30, 2014. All Districts.			
(5) RECOMMENDED ACTION It is recommended the Board receive, review and file the County of San Luis Obispo's Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Agreed-Upon Procedures Report, and the communications letter for the fiscal year ended June 30, 2014.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input type="checkbox"/> Board Business (Time Est. ___)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date: <u>2/25/2014</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

# County of San Luis Obispo



TO: Board of Supervisors

FROM: James Erb, CPA Auditor - Controller - Treasurer - Tax Collector

DATE: 2/3/2015

SUBJECT: Submittal of the County of San Luis Obispo's audited Comprehensive Annual Financial Report (Clerk's Filed), Single Audit Report (Clerk's Filed), Agreed-Upon Procedures Report for the Los Osos Landfill Financial Means Test Certification, and required communications letter for the Fiscal Year Ended June 30, 2014. All Districts.

## **RECOMMENDATION**

It is recommend the Board receive, review and file the County of San Luis Obispo's Comprehensive Annual Financial Report (CAFR), the Single Audit Report, the Agreed-Upon Procedures Report, and the communications letter for the fiscal year ended June 30, 2014.

## **DISCUSSION**

The County of San Luis Obispo's Comprehensive Annual Financial Report (CAFR) is mandated by Sections 25250 and 25253 of the Government Code of the State of California. These statues require the County to publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. We are also submitting the County's Single Audit Report and the Agreed-Upon Procedures Report for the Los Osos Landfill Financial Means Test which were prepared in conjunction with the audit of the County's annual financial statements performed by the independent accounting firm of Gallina LLP, CPAs.

The primary purpose of the CAFR is to disclose the financial position of San Luis Obispo County as of June 30, 2014, together with the results of its operations for the 2013-2014 fiscal year. The CAFR is organized into four main sections; the introductory section, financial section, required supplementary information and the statistical section.

The introductory section, which begins on page one, includes a letter of transmittal, general information on the government's structure and personnel as well as information useful in assessing the County's financial condition.

The financial section begins on page fifteen with an unqualified opinion from the independent auditors, Gallina LLP, CPAs. This clean bill of health is the auditors' attestation that the statements are presented fairly and in conformity with generally accepted accounting principles. Management's Discussion and Analysis (MD&A) follows the opinion report. The MD&A provides users of the basic financial statements with a narrative introduction, overview, and analysis of basic financial statements.

The Basic Financial Statements follow the MD&A and represent the core of the CAFR's financial section. The basic financial statements include *government-wide financial statements, fund financial statements, and notes to the financial statements*. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The fund financial statements contain separate statements for governmental, proprietary and fiduciary fund types and focus on major fund reporting. The notes to the financial statements are presented last and are an integral part of the basic financial statements.

The Required Supplementary Information follows the notes and contains a Budgetary Comparison Schedule for the General Fund and Schedules of Funding Progress for the County's Defined Benefit and Other Post Employment Benefits

Plans.

Following the financial statements is a series of combining statements. These combining statements provide support for each column in the basic financial statements that aggregates data from more than one fund. Detail budgetary schedules for all governmental funds with adopted budgets follow the combining statements.

The statistical section of the CAFR includes charts and graphs which offer a wide range of financial, economic and demographic comparisons for the current and past nine fiscal years. These statistics provide easily readable economic analysis and insight into the County's financial stability.

The Certificate of Achievement for Excellence in Financial Reporting has been awarded to San Luis Obispo County for the last twenty-eight consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we have submitted it to the Government Finance Officers Association (GFOA) for a determination.

Included with the CAFR is the Single Audit Report which presents the results of the audit on federal programs in compliance with the U.S. Office of Management and Budget (OMB) Circular A-133. Copies of both reports are available on the County's website ([www.slocounty.ca.gov/AC](http://www.slocounty.ca.gov/AC)) under Auditor-Controller Financial Reports.

Also included with the CAFR is the Agreed-Upon Procedures report which presents the results of the external auditor's procedures performed regarding the Los Osos Landfill Financial Means Test Certification.

Finally, also submitted is a required communications letter provided by our auditors. The purpose of the letter is to communicate to the Board the scope of audit procedures performed, significant findings, and other information, such as audit adjustments and significant estimates that aren't communicated in the audited financial statements. Reported with the letter is an audit finding involving two receipts for State Aid that were recorded in the wrong fiscal year in the Capital Projects Fund. The payments were received after the June 30 year end, one in late July and one in early August. The total amount of the two payments was approximately \$3,300,000. These two payments, for annual reporting purposes, should have been posted to the prior fiscal year. The oversight was identified by the outside auditors and corrected in the fiscal year 2013-2014 CAFR. The finding was a financial statement reporting issue and did not impact operations. This finding was a result of us not training new staff assignments properly and emphasizing the importance of the year-end review of subsequent deposits. We have provided training on our current procedures which will prevent this from happening again.

#### **OTHER AGENCY INVOLVEMENT/IMPACT**

Preparation of this report requires the cooperation and assistance of all county departments. We especially appreciate the contribution made by the staff of Public Works, General Services, and Pension Trust.

#### **FINANCIAL CONSIDERATIONS**

The funding for these audited reports has been previously approved. No additional funding is required. This CAFR will be supplied to bond rating firms and governmental regulatory agencies for their use.

#### **RESULTS**

Completion of these reports enables the County to comply with the State and Federal reporting requirements and provide the Board of Supervisors and the public with county-wide audited financial information.

#### **ATTACHMENTS**

1. FY 13-14 Los Osos Landfill Report
2. FY 13-14 Gallina Communication Letter
3. Clerk's Filed Attachment



## INDEPENDENT ACCOUNTANT'S REPORT

The Board of Supervisors  
County of San Luis Obispo  
San Luis Obispo, California

We have performed the procedure, noted below, which was agreed to by you, to the accounting records of the County of San Luis Obispo, solely to assist you in connection with a determination as to whether the schedule known as the Los Osos Landfill Financial Means Test Certification – Alternative I, is accurate as compared to the audited financial statements for that period. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

- We compared the information contained in the worksheet entitled “Alternative I” with the information contained in the audited financial statements.

### Results:

There were no differences between the information reported in the worksheet entitled “Alternative I” and the audited financial statements of the County of San Luis Obispo for the year ended June 30, 2014.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified item. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the California Integrated Waste Management Board, Board of Supervisors, and management of the County of San Luis Obispo and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Gallina LLP'.

Roseville, California  
December 22, 2014





To the Honorable Board of Supervisors  
of the County of San Luis Obispo, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Luis Obispo, as of and for the year ended June 30, 2014, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 16, 2014. We did not audit the financial statements of the San Luis Obispo County Pension Trust Fund and the First 5 San Luis Obispo County. Those financial statements were audited by other auditors whose reports thereon have been furnished to us. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated May 15, 2014, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles and to express opinions based on the assurance obtained. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the

purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 15, 2014.

### **Qualitative Aspects of Accounting Practices**

#### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements.

As described in Note 18 to the financial statements, the County changed accounting principal related to debt issuance costs by adopting GASB Statement No. 65, (Items Previously Reported as Assets and Liabilities), which requires debt issuance costs to be recognized as an expense in the period incurred. Prior to GASB No. 65, the County was recognizing the debt issuance costs related to its long-term debt as an expense in a systematic manner over the duration of the related debt. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of net position.

Other than the new accounting policy described in the previous paragraph, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- *Allowance for uncollectible accounts:* Management's estimate is based on past experience and subsequent collections. We reviewed management's calculation of the allowance.

- *Claims liability*: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- *OPEB liability*: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- *Liability for solid waste landfill closure and postclosure costs*: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures were corrected by management:

- Adjust receivable and related intergovernmental revenue account balances by \$3.3 million in the capital projects fund to properly account for reimbursements for fiscal year 2013-14 project expenditures.

### **Immaterial Misstatements Not Corrected by Management**

Management passed on the following adjustments:

- Adjustment to total pooled cash to account for the fair value of the County's investments at June 30, 2014. The proposed adjustment to pooled cash and investments was less than 1 percent of the total value of the pooled cash and investments at June 30, 2014.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated December 16, 2014.

## **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Matters**

We applied certain limited procedures to the management’s discussion and analysis, budgetary comparison schedules, and the schedules of funding progress for both the defined benefit retirement plan and the other post employment benefits plan (OPEB), which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it

Restriction on Use

This report is intended solely for the information and use of management, the Board of Supervisors and management of the County of San Luis Obispo and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Gallina" followed by a stylized flourish.

Roseville, California  
December 16, 2014

**CLERK'S FILED**

**Attachments**

**County of San Luis Obispo Comprehensive Annual Financial Report 2013-14  
County of San Luis Obispo Single Audit Report FY 2013-14**

**These documents are available at the San Luis Obispo City-County Library  
or on-line at: [http://www.slocounty.ca.gov/AC/Financial\\_Reports.htm](http://www.slocounty.ca.gov/AC/Financial_Reports.htm)**